

REQUEST FOR PROPOSALS
FOR
INVESTMENT CONSULTANT SERVICES

RHODE ISLAND
STATE INVESTMENT COMMISSION

c/o Office of the General Treasurer
Finance Division
40 Fountain Street, 8th Floor
Providence, Rhode Island 02903

(December, 2007)

RHODE ISLAND STATE INVESTMENT COMMISSION

Request For Proposals

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Section 1 - Introduction

1.1 Purpose

This Request for Proposal ("RFP") is issued by the State Investment Commission (the "Commission") for the purpose of soliciting proposals from qualified investment consulting firms interested in providing investment consulting services for assets of the Employees Retirement System of Rhode Island (the "System"). The Commission intends to hire one or more firms to perform different aspects of this mandate, and anticipates awarding contracts to the successful firms. Any contract resulting from the RFP shall not be an exclusive contract.

The Commission intends to hire one or more firms to provide the following general yet separate categories of *investment consulting services*:

- A. Development and monitoring of Asset Allocation strategies and Investment Policies, Guidelines, Statements, and Restrictions for the System's investments.
- B. Selection, monitoring, and evaluation of investment managers for equities and fixed income investment categories.
- C. Performance of an annual overall investment analysis of all of the System's investment managers and other investment consultants.
- D. Voting of all proxies for all of the System's holdings.

Bidding firms may submit proposals on one or more of the above-described categories of *investment consulting services*, provided that each such proposal ***must be submitted separately***.

Moreover, bidding firms may refrain from responding to certain question(s) set forth in this RFP if the bidding firm determines in its discretion that said question(s) are not relevant to or do not otherwise pertain to a specific category of investment consulting services for which it submits a proposal; provided that the Commission reserves the right to require a response to any question if it determines that a response is in fact relevant or pertinent.

Investment consulting firms that the Commission believes may meet the minimum requirements will be sent correspondence alerting them of the issuance of this RFP. However, any investment consulting firm that meets the minimum requirements of this RFP may submit a proposal.

1.2 Background Information - General Information about the System

This RFP is designed to provide firms with the information necessary for the preparation of competitive proposals. The RFP process is for the Commission's benefit and is intended to provide the Commission with competitive information to assist in the selection process. It is not intended to be comprehensive. Each firm is responsible for determining all factors necessary for submission of a comprehensive proposal.

- Coverage:

The System is a public pension fund made up of and serving as the investment and pension-benefit administrative agent for the following four (4) defined benefit pension plans:

(1) The *Employees Retirement System of Rhode Island* ("ERS"), which is a multiple-employer defined benefit plan covering the retirement assets of all state employees and public school teachers.

(2) The *Municipal Employees Retirement System* ("MERS"), which is a multiple-employer defined benefit plan serving as the agent for various municipalities opting to participate on behalf of their municipal employees, and covering the retirement assets of said municipal employees (the assets of each municipality unit are valued independently).

(3) The *Judicial Retirement Benefits Trust* ("JRBT"), which is a single-employer defined benefit plan covering the retirement assets of all state judges who were appointed after December 31, 1989.

(4) The *State Police Retirement Benefits Trust* ("SPRPT"), which is a single-employer defined benefit plan covering the retirement assets of all state police officers who were hired after July 1, 1987.

On July 1, 1992, the assets in ERS were merged with the assets in MERS for investment purposes only. On September 29, 1994, the assets of the SPRBT were merged with the pooled ERS and MERS assets for investment purposes only. Finally, on November 1, 1995, the assets of the JRBT were added to the total merged pool for investment purposes only.

However, while the assets of each plan are commingled for investment purposes, each plan's assets are accounted for separately and may be used only for the payment of benefits to the members of that plan in accordance with the terms of that plan.

- Administration:

The System is administered by the Retirement Board, which consists of 15 positions determined in accordance with *Rhode Island General Laws* §36-8-4, as follows:

(1) the general treasurer or his or her designee, who shall be a subordinate within the general treasurer's office; **(2)** the director of administration or his or her designee, who shall be a subordinate within the department of administration; **(3)** a representative of the budget office or his or her designee from within the budget office, who shall be appointed by the director of administration; **(4)** the president of the league of cities and towns or his or her designee; **(5-6)** two active state employee members of the retirement system or officials from state employee unions to be elected by active state employees; **(7-8)** two active teacher members of the retirement system or officials from a teachers union to be elected by active teachers; **(9)** one active municipal employee member of the retirement system or an official from a municipal employees union to be elected by active municipal employees; **(10-11)** two retired members of the retirement system to be elected by retired members of the system; and **(12-15)** four public members, all of whom shall be competent by training or experience in the field of finance, accounting, or pensions - two of the public members shall be appointed by the governor, one of whom shall serve an initial term of three years and one of whom shall serve an initial term of four years and until his or her successor is appointed and qualified - two of the public members shall be appointed by the general treasurer, one of whom shall serve an initial term of three years and one of whom shall serve an initial term of four years and until his or her successor is appointed and qualified. Thereafter, the term of these four public members shall be for four years or until their successors are appointed and qualified.

The Commission is responsible for establishing, implementing, and administering the System's investment policies and practices. Thus, assets are invested under the direction and authority of the Commission. The Commission consists of 10 positions determined in accordance with *Rhode Island General Laws* §35-10-1, as follows:

(1) the general treasurer, ex officio, or a deputy general treasurer as his or her designee, who shall act as chairperson; **(2)** the director of administration, ex officio, or any assistant director of administration as his or her designee, who shall act as secretary; **(3)** a director of the higher education assistance authority, or his or her designee to be appointed by the general treasurer; **(4)** an active or retired teacher, state, or municipal employee member of the

retirement system or official from the teacher, state, or municipal employee unions to be appointed by the general treasurer for a term of three years; **(5)** the executive director of the state retirement board, who shall be a nonvoting member; **(6-7)** two members of the general public to be appointed by the general treasurer, one of whom shall serve for an initial term of one year, and one of whom shall serve for an initial term of two years and until his or her successor is appointed and qualified; and **(8-10)** three members of the general public to be appointed by the governor, one of whom shall serve for an initial term of three years, one of whom shall serve for an initial term of two years, and one of whom shall serve for an initial term of one year and until his or her successor is appointed and qualified. Thereafter, the general public members shall serve for three year terms and until his or her successor is appointed and qualified. The members of the general public appointed by the governor and the general treasurer must be qualified by training or experience in the field of investment or finance.

- Membership:

According to the *Annual Financial Report for the Fiscal Year ending June 30, 2005*, as of June 30, 2005, there were 35,511 active contributing members in ERS and MERS combined; 44 active contributing judges in the JRBT; 181 active contributing state police officers in the SPRBT; and 22,388 retirees and beneficiaries were receiving benefits from the entire System.

- Assets:

According to the *Independent Auditor's Report for the Fiscal Year Ending June 30, 2006*, the System's Total Fiduciary Net Assets totaled \$7.3 Billion as of June 30, 2006, an increase of \$579.4 Million from June 30, 2005; Total Pension Benefits paid to members were \$607.9 Million; and Total employee and employer contributions into the System's plans were \$421.9 Million.

- Actuarial Funding:

According to the *Annual Financial Report for the Fiscal Year ending June 30, 2005* and *Actuarial Valuation Report as of June 30, 2005*, the actuary had determined that the funded ratio for state employees' portion of ERS was 56.3%; the funded ratio for the teachers' portion of ERS was 55.4%; the funded ratio for the JRBT was 87.0%; and the funded ration for the SPRBT was 79.0%. MERS prepares separate actuarial valuations and funded ratios for each participating municipal unit.

The actuarial investment return assumption utilized for the System is 8.25%. The actuarial value of assets is determined based on a five-year smoothing methodology.

- *Investments:*

According to the *Independent Auditor's Report for the Fiscal Year Ending June 30, 2006*, as of June 30, 2006 the System's assets were invested in the following asset classes:

Investment Type:	Fair Value
U.S. Government Securities	\$582,488,360
U.S. Government Agency Securities	\$469,460,985
Collateralized Mortgage Obligations	\$43,548,080
Corporate Bonds	\$586,882,967
International Corporate Bonds	\$34,753,768
Domestic Equity Securities	\$1,191,377,199
International Equity Securities	\$1,521,896,907
Foreign Currencies	\$31,153,732
Private Equity	\$436,470,559
Real Estate	\$294,750,770
Money Market Mutual Fund	\$170,432,150
Commingled Funds - Domestic Equity	\$1,779,963,488
Commingled Funds - International Equity	<u>\$128,693,312</u>
<i>Total Investments at Fair Value</i>	<i>\$7,271,872,277</i>

The System's current strategic asset allocation targets are indicated below:

Domestic Equities - 42.5%
Non-U.S. Equities - 20.0%
Fixed Income - 25.0%
Alternative Investments - 7.5%
Real Estate - 5.0%

For additional information relating to the System, including an overall System Organization Chart and the composition of the Retirement Board and Investment Commission, please refer to the System's web site at www.ERSRI.com, including the Full 2005 Annual Report (*Annual Financial Report for the Fiscal Year ending June 30, 2005*) located under the "Publications" Section on the Home Page.

The Commission or its designee will evaluate proposals received in response to this RFP.

1.3 Minimum Requirements

To be considered for the general investment consultant mandate described above, the firm must meet the following minimum requirements:

1.3.1 The investment consulting firm must be a registered investment advisor under the Investment Company Act of 1940;

1.3.2 The investment consulting firm must agree to be, with respect to the System, a "fiduciary" as defined in Section 3(21)(A) of the Employee Retirement Income Security Act of 1974 ("ERISA"), and to perform the fiduciary duties imposed on an ERISA fiduciary under that act, regardless of the scope of ERISA's application to the System;

1.3.3 The investment consulting firm must have provided for at least five (5) years as of investment consulting services comparable to the Scope of Services contained in this RFP to at least three (3) defined benefit public retirement systems, each of which must have had at least \$5 billion in assets;

1.3.4 The investment consulting firm must be able to maintain a satisfactory data processing interface with the System's custodian bank by tape, disk, on-line connection or other electronic means, at the firm's expense, for the purposes of compiling all required performance reviews and reports;

1.3.5 The investment consulting firm must agree to disclose all potential conflicts of interest as such exist or occur, and annually disclose all sources of revenue and all affiliations;

1.3.6 The investment consulting firm must agree to a hard dollar fee arrangement for its services, with such arrangement to be negotiated between the Commission and the firm;

1.3.7 The individual assigned to the System as Primary Consultant must have a minimum of ten (10) total years of experience as (a) the Primary Consultant to, and/or (b) the Chief Investment Officer of, at least one public defined benefit pension fund. This individual must have at least five (5) years of experience as the Primary Consultant to or Chief Investment Officer of at least one public pension fund with at least \$5.0 billion in assets, whether that experience was included in or in addition to the ten year requirement above. The term "Primary Consultant" shall refer to the lead, most senior consultant assigned to regularly provide direct investment consulting services in a consulting relationship.

1.3.8 The investment consulting firm must carry adequate fiduciary liability insurance, errors & omissions insurance, and fidelity bond insurance.

Section 2 - Administrative Information

2.1 Issuing Officer

The Issuing Officer, identified below, is the sole point of contact regarding the RFP from the date of issuance until selection of the successful firm.

Kenneth Goodreau, CMT
Deputy General Treasurer for Finance
40 Fountain Street, 8th Floor
Providence, Rhode Island 02903

2.2 Restriction on Communication

From the issue date of this RFP until announcement of the successful firm, firms may contact only the Issuing Officer regarding the RFP. The Issuing Officer will respond only to questions regarding the procurement process. Questions related to the interpretation of this RFP must be submitted in writing to the Issuing Officer by 4:30 p.m., **December 31, 2007**. Verbal questions related to the interpretation of this RFP will not be accepted. Firms may be disqualified if they contact any state employee, board or commission member or any officer other than the Issuing Officer regarding the RFP.

2.3 Downloading the RFP from the Internet

The RFP will be available on the General Treasurer's website at www.treasury.ri.gov. A link to the RFP will be located on that page under the "News and Updates" heading.

2.4 Timetable

The following dates are set forth for informational and planning purposes; however, the Commission reserves the right to change the dates.

Issue RFP	December 10, 2007
Requests for Clarification Due	December 31, 2007
Response to Requests for Clarification Issued	January 10, 2007
Due Date for Receipt of Proposals	January 18, 2008
Conduct Interview Process	February, 2008
Conduct Selection Process	March, 2008
Begin Contract	April 1, 2008

2.5 Questions, Requests for Clarification, and Suggested Changes

Firms are invited to submit written questions and requests for clarifications regarding the RFP. Firms may also submit suggestions for changes to the requirements of this RFP. **The questions, requests for clarifications, or suggestions must be sent in writing to the attention of the Issuing Officer and must be**

received before 4:30 p.m. on December 31, 2007. Oral questions will not be permitted. If the questions, requests for clarifications, or suggestions pertain to a specific section of the RFP, the page and section number(s) must be referenced. The written responses will be considered part of the RFP. If the Commission decides to adopt a suggestion, it will issue an amendment to the RFP. The Commission assumes no responsibility for verbal representations made by its officers or employees unless such representations are confirmed in writing and incorporated into the RFP.

2.6 Amendment to the RFP and Proposal and Withdrawal of Proposal

The Commission reserves the right to amend the RFP at any time. The firm shall acknowledge in its proposal the receipt of an amendment. If the amendment occurs after the closing date for receipt of proposals, the Commission may, in its sole discretion, allow firms to amend their proposals in response to the Commission's amendment.

The firm may amend its proposal. The amendment must be in writing, signed by the firm and received by time set for the receipt of proposals. Electronic mail and faxed amendments will not be accepted. Firms who submit proposals in advance of the deadline may withdraw, modify, and resubmit proposals at any time prior to the deadline for submitting proposals. Firms must notify the Issuing Officer in writing if they wish to withdraw their proposals.

2.7 Submission of Proposals

The Commission must receive ten (10) copies of the firm's proposal at the Office of the General Treasurer, Finance Division, 40 Fountain Street, 8th Floor, Providence, Rhode Island 02903 before 4:30 p.m. EST on January 18, 2008. This is a mandatory requirement and will not be waived. Any proposal received after this deadline will be rejected and returned. Firms mailing proposals must allow ample mail delivery time to ensure timely receipt of their proposals. It is the firm's responsibility to ensure that the proposal is received prior to the deadline. Postmarking by the due date will not substitute for actual receipt of the proposal. Electronic mail and faxed proposals will not be accepted. Firms must furnish all information necessary to evaluate the proposal. Proposals that fail to meet the minimum requirements of the RFP will be disqualified. Verbal information provided by the firm shall not be considered part of the firm's proposal. Proposals will remain confidential until the Commission has reviewed all of the proposals properly submitted in response to this RFP and announced its intent to award a contract.

2.8 Costs of Preparing the Proposal

The costs of preparation and delivery of the proposal are solely the responsibility of the firm.

2.9 Rejection of Proposals

The Commission reserves the right to reject any or all proposals, in whole and in part, received in response to this RFP at any time prior to the execution of a written contract. Issuance of this RFP in no way constitutes a commitment by the Commission to award a contract. This RFP is designed to provide firms with the information necessary to prepare a competitive proposal. This RFP process is for the Commission's benefit and is intended to provide the Commission with competitive information to assist in the selection of a firm to provide services. It is not intended to be comprehensive and each firm is responsible for determining all factors necessary for submission of a comprehensive proposal.

2.10 Disqualification

The Commission may reject outright and not evaluate a proposal for any one of the following reasons:

2.10.1 The firm fails to deliver the proposal by the due date and time.

2.10.2 The firm does not meet the minimum requirements established in the RFP.

2.10.3 The firm states that a service requirement cannot be met.

2.10.4 The firm's response materially changes a service requirement.

2.10.5 The firm's response limits the rights of the Commission or the Board.

2.10.6 The firm fails to respond to the Commission's request for information, documents, or references.

2.10.7 The firm fails to include any signature, certification, authorization, stipulation, disclosure or guarantee requested in this RFP.

2.10.8 The firm presents the information requested by this RFP in a format inconsistent with the instructions of the RFP.

2.10.9 The firm initiates unauthorized contact regarding the RFP with any state employee, state official, Commission or Board member that is not the Issuing Officer.

2.10.10 The firm provides misleading or inaccurate responses.

2.11 Nonmaterial and Material Variances

The Commission reserves the right to waive or permit cure of nonmaterial variances in the proposal if, in the judgment of the Commission, it is in the best interest to do so. Nonmaterial variances include minor informalities that do not affect responsiveness; that are merely a matter of form or format; that do not change the relative standing or otherwise prejudice other firms; that do not change the meaning or scope of the RFP; or that do not reflect a material change in the services. In the event the Commission waives or permits cure of nonmaterial variances, such waiver or cure will not modify the RFP requirements or excuse the firm from full compliance with RFP specifications or other contract requirements if the firm is awarded the contract. The determination of materiality is in the sole discretion of the Commission.

2.12 Reference Checks

The Commission reserves the right to contact any reference to assist in the evaluation of the proposal, to verify information contained in the proposal and to discuss the firm's qualifications.

2.13 Information From Other Sources

The Commission reserves the right to obtain and consider information from other sources concerning a firm, such as the firm's capability and performance under other contracts.

2.14 Proposal Clarification

The Commission reserves the right to contact a firm after the submission of proposals for the purpose of clarifying a proposal to ensure mutual understanding. This contact may include written or verbal questions, interviews, site visits, a review of past performance if the firm has provided goods or services to the System or any other political subdivision wherever located, or requests for corrective pages in the firm's proposal. The Commission will not consider information received if the information materially alters the content of the proposal or alters the type of services the firm is offering to the System. An individual authorized to legally bind the firm shall sign responses to any Commission request for clarification. Responses shall be submitted to the Commission within the time specified in the request. Failure to comply with requests for additional information may result in rejection of the proposal as non-compliant.

2.15 Disposition of Proposals

All proposals become the property of the Commission and shall not be returned to the firm. At the conclusion of the selection process, the contents of all proposals will

be in the public domain and be open to inspection by interested parties subject to exceptions as provided by applicable law.

2.16 Public Records and Requests for Confidential Treatment

The Commission may treat all information submitted by a firm as public information following the conclusion of the selection process unless the firm properly requests that information be treated as confidential at the time of submitting the proposal. The Commission's release of public information is governed by Rhode Island General Laws. Firms are encouraged to familiarize themselves with these laws before submitting a proposal. The Commission will copy public records as required to comply with applicable law. Any request for confidential treatment of information must be stated in the transmittal letter with the firm's proposal. In addition, the firm must enumerate the specific grounds that support treatment of the material as confidential and explain why disclosure is not in the best interest of the public. The request for confidential treatment of information must also include the name, address, and telephone number of the person authorized by the firm to respond to any inquiries by the Commission concerning the confidential status of the materials. Any proposal submitted which contains confidential information must be conspicuously marked on the outside as containing confidential information, and each page upon which confidential information appears must be conspicuously marked as containing confidential information. Identification of the entire proposal as confidential may be deemed non-responsive and disqualify the firm. If the firm designates any portion of the RFP as confidential, the firm must submit one copy of the proposal from which the confidential information has been excised. This excised copy is in addition to the number of copies requested in this RFP. The confidential material must be excised in such a way as to allow the public to determine the general nature of the material removed and to retain as much of the proposal as possible. The Commission will treat the information marked confidential as such to the extent such information is determined confidential under applicable law or by a court of competent jurisdiction. In the event the Commission receives a request for information marked confidential, written notice shall be given to the firm seven (7) calendar days prior to the release of the information to allow the firm to seek injunctive relief pursuant to the Rhode Island General Laws. The firm's failure to request confidential treatment of material will be deemed by the Commission as a waiver of any right to confidentiality which the firm may have had.

2.17 Copyrights

By submitting a proposal, the firm agrees that the Commission may copy the proposal for purposes of facilitating the evaluation of the proposal or to respond to requests for public records. The firm consents to such copying by submitting a proposal and warrants that such copying will not violate the rights of any third party. The Commission shall have the right to use ideas or adaptations of ideas that are presented in the proposals.

2.18 Release of Claims

By submitting a proposal, the firm agrees that it will not bring any claim or cause of action against the Commission based on any misunderstanding concerning the information provided herein or concerning the failure, negligent or otherwise, to provide the firm with pertinent information as intended by this RFP.

2.19 Presentations

Firms may be required to make a presentation of the proposal to the Commission. The presentation may occur at the Commission's offices or at some other mutually agreeable location. The determination as to need for presentations, the location, order, and schedule of the presentations is at the sole discretion of the Commission. The presentation shall not materially change the information contained in the proposal.

2.20 Evaluation of Proposals Submitted

Proposals that are timely submitted and are not subject to disqualification will be reviewed in accordance with Section 5 of the RFP.

2.21 Award Notice and Acceptance Period

The Commission will notify all firms submitting a timely proposal of its intent to award a contract, contingent upon satisfactory negotiation thereof. Negotiation and execution of the contract shall be completed in a reasonable period of time, as determined by the Commission. If the selected firm fails to negotiate and deliver an executed contract in said time period, the Commission may cancel the award and award the contract to the next highest ranked firm.

2.22 Choice of Law and Forum

This RFP and the resulting contract are to be governed by the laws of the state of Rhode Island. Changes in applicable laws and rules may affect the award process or the resulting contract. Firms are responsible for ascertaining pertinent legal requirements and restrictions. Any and all litigation or actions commenced in connection with this RFP shall be brought in the appropriate Rhode Island forum.

2.23 Restrictions on Gifts and Activities

The Rhode Island General Laws restricts gifts which may be given or received by state employees and requires certain individuals to disclose information concerning their activities with state government. Firms are responsible to determine the applicability of these laws to their activities and to comply with the requirements. In addition, it is a felony offense to bribe or attempt to bribe a public official.

Section 3 - Service Requirements

3.1 Scope of Services

Firms bidding on this mandate may submit bids on some or all of the separate categories of investment consulting services described this mandate, which will require the following scope of services to the System (per mandate category):

Category A: Development and monitoring of Asset Allocation strategies and Investment Policies, Guidelines, Statements, and Restrictions for the System's investments.

- Advising on the development, implementation and/or revision of investment policies, guidelines, statements, and restrictions;
- Providing annual asset allocation reviews and recommendations, including annual reports that state specific forecasts of return, risk and correlations for all asset classes – including the consideration of the advantages and disadvantages of various styles of investment management, including active versus passive, internal versus external, higher or lower levels of risk in various investment classes and the appropriate number and types of external managers;
- Advising on risk management issues;
- Advising on management structure (e.g. active vs. passive, investment style mix);
- Advising on strategic and tactical investment issues;
- Analyzing investment managers' adherence to investment policies, guidelines, statements, and restrictions established for each portfolio;
- Providing analytical software (or an on-line system) that will allow the General Treasurer, including the Commission, to analyze and evaluate asset allocation optimization scenarios and investment structures and styles;
- Providing research on special investment topics as requested;
- Advising on rebalancing policies;
- Advising on transition management issues and strategies;

- Working cooperatively with the System's actuarial consultant to provide periodic asset/liability studies as requested;
- Performing educational sessions for the Commission and its staff as required;
- Providing on-site consultation and assistance, as requested; and
- Attending Commission meetings and manager search finalist interviews as requested by the Commission.

Category B: Selection, monitoring, and evaluation of investment managers for equities and fixed income investment categories.

- Advising on investments in the equity and fixed income markets (other than those investment categories described in Categories (C) and (D) below);
- Providing or assisting in equity and fixed income market investment manager searches, summaries of prospective candidates, scheduling of interviews, recommendations for final selection of managers, watch list placements and terminations;
- Performing overall quarterly performance analysis by manager in this asset class, including peer universe comparisons at the asset class and total fund levels, and providing annual reports on same;
- Providing on-site consultation and assistance, as requested; and
- Attending approximately twelve (12) Commission meetings per year and any manager search finalist interviews.

Category C: Performance of an annual overall investment analysis of all of the System's investment managers and other investment consultants.

- Performing an annual overall performance analysis by manager, asset class, and total fund, including peer universe comparisons at the asset class and total fund levels, and providing annual reports on same;
- Overseeing investment managers in conjunction with the Commission, including periodic reviews, interviews and on-site visits of managers as requested by the Commission;
- Analyzing and advising on the capabilities of investment managers (those under contract to the System and also prospective firms that the Commission may review in manager search processes), including the

analysis of a firm's personnel, investment philosophies and processes, internal and risk controls, risk-adjusted performance and performance relative to peers;

- Analyzing the number of external money managers and the sizes of the accounts, for comparison with industry standards of diversification;
- Reviewing the guidelines (including a review of the relevant internal controls, compliance policies and monitoring procedures employed by the system's external investment managers) which are used to evaluate the managers to determine whether they adequately define risk and identify expenses;
- Analyzing the investment management expenses for managing the fund, and comparison with other large institutional investors and industry standards in relation to the performance of the fund;
- Evaluating other costs associated with asset management, including consulting, custody, securities lending, transaction fees, brokerage fees, hard and soft dollars, commissions (if applicable), and any other costs;
- Providing analytical software (or an on-line system) that will allow the Commission to analyze investment manager performance (including the capability of determining if a manager's performance is within established limits for tracking error or active risk);
- Providing on-site consultation and assistance, as requested; and
- Attending Commission meetings as requested by the Commission.

Category D: Voting of all proxies for all of the System's holdings.

- Voting or directing the voting of proxies solicited by or with respect to the issuers of securities in which System's assets are invested.

Section 4 - Format and Content of Proposals

4.1 Instructions

These instructions prescribe the format and content of the proposal. They are designed to facilitate a uniform review process. Failure to adhere to the proposal format may result in the disqualification of the proposal.

4.1.1 The proposal shall be typewritten on 8.5" x 11" paper.

4.1.2 **One (1) original and ten (10) copies** of the proposal shall be timely submitted to the Issuing Officer. In addition, an electronic version of the proposal in either Microsoft Word or "pdf" format shall be provided to the Issuing Officer on a compact disc.

4.1.3 If the firm designates any information in its proposal as confidential pursuant to section 2.16, the firm must also submit one (1) copy of the proposal from which confidential information has been excised. The confidential material must be excised in such a way as to allow the public to determine the general nature of the material removed and to retain as much of the proposal as possible. In addition, an electronic version of the excised proposal shall be provided to the Issuing Officer in either Microsoft Word or "pdf" format on a compact disc.

4.1.4 Proposals shall not contain promotional or display materials.

4.1.5 Attachments shall be referenced in the proposal.

4.2 Content of Proposal

The following documents and responses shall be included in the proposal in the order given below:

4.2.1 Transmittal Letter

4.2.1.1 An individual authorized to legally bind the firm shall sign the transmittal letter. The letter shall include the firm's mailing address, electronic mail address, fax number, and telephone number.

4.2.1.2 Any request for confidential treatment of information shall be included in the transmittal letter in addition to the specific statutory basis supporting the request and an explanation why disclosure of the information is not in the best interest of the public. The transmittal letter shall also contain the name, address and telephone number of the individual authorized to respond to the Commission about the confidential nature of the information.

4.2.1.3 The firm shall certify in the transmittal letter that the contents of the proposal submitted on behalf of the firm are true and accurate, and that the firm has not made any knowingly false statements in its proposal.

4.2.1.4 The firm shall specifically agree in the transmittal letter that the proposal is predicated upon the acceptance of all terms and conditions stated in the RFP. If the firm objects to any term or condition, the firm must specifically refer to the RFP page, and section. Objections or responses that materially alter the RFP may be deemed non-responsive and disqualify the firm.

4.2.1.5 The firm shall guarantee in the transmittal letter the availability of the services offered and that all proposal terms, including price, will remain in effect for a minimum of one hundred eighty (180) days following the deadline for submitting proposals.

4.2.2 Table of Contents

The firm shall include a table of contents of its proposal.

4.2.3 Minimum Requirements

4.2.3.1 Is the firm a registered investment advisor under the Investment Company Act of 1940? If yes, please provide the firm's SEC File Number (e.g. 801-xxxxx).

4.2.3.2 Will the investment consulting firm contractually agree to be a "fiduciary" to the System as defined in Section 3(21)(A) of the Employee Retirement Income Security Act of 1974 ("ERISA"), and to perform the fiduciary duties imposed on an ERISA fiduciary under that act, regardless of the scope of ERISA's application to the System?

4.2.3.3 Provide the names of any defined benefit public pension system clients for which the firm has provided consulting services comparable to the scope of services described herein, whose market value of assets were at least \$5 billion, and to which the firm had provided investment consulting services continuously for the five year period ended June 30, 2007.

4.2.3.4 Is the firm willing and able to maintain, at the firm's expense, a satisfactory data processing interface with the System's custodian bank (currently State Street Bank and Trust of Boston, MA) by tape, disk, on-line connection or other electronic means, for the purposes of compiling performance reviews and reports?

4.2.3.5 Will the firm contractually agree to disclose all potential conflicts of interest as such exist or occur, and annually disclose all sources of revenue and all affiliations, including but not limited to all commission arrangements?

4.2.3.6 Whether the firm will contractually agree to a hard dollar fee arrangement for its services, it being understood that such arrangement shall be negotiated between the Commission and the firm?

4.2.3.7 Provide the name of the consultant that the firm will designate as the Primary Consultant to the Commission if it is awarded this mandate. For purposes hereof, Primary Consultant shall mean the lead, most senior consultant assigned to regularly provide direct investment consulting services to the Commission. Provide a brief biography of the Primary Consultant with information sufficient to determine whether or not the individual meets the minimum requirements stipulated in this RFP.

4.2.3.8 Is the firm currently able to provide the full scope of services listed in section 3? If not, explain which services your firm cannot provide.

4.2.4 Organization, Independence and Ethics

4.2.4.1 Provide the name, address, telephone and fax numbers, and e-mail address of the firm's representative to contact regarding all contractual and technical matters concerning the firm's proposal.

4.2.4.2 Provide the address of the firm's main corporate office, and the location by city of all other offices or that provide services similar to those requested in this RFP. Indicate which office will be primary in servicing the Commission, and any other offices that will be involved in provision of services to the Commission. Provide the number of employees located at each office location, and describe the general function(s) of each office.

4.2.4.3 Does the firm intend to utilize any subcontractors in delivering the scope of services? If yes, provide the name and qualifications of any subcontractors that the firm intends to use for this mandate. Will the firm agree to hold harmless and indemnify the Commission and the System for any acts of subcontractors?

4.2.4.4 Briefly describe your firm's history and current ownership structure. List the owners of the firm from largest to smallest percentage of ownership. Include individuals and corporate owners, and indicate which individual owners are employed by your firm. Is your firm owned, in whole or in part, by a money management firm or firms?

4.2.4.5 Provide as Exhibit A an organization chart of your firm and describe the relationship between the investment consulting group and any other components of the firm. If your firm offers asset management services or brokerage services, describe any overlap in personnel between those components and the investment consulting group.

4.2.4.6 Within the past three (3) years, have there been any significant developments in your organization such as changes in ownership, restructuring, or personnel reorganizations? If yes, please describe. If you anticipate significant structural changes in your organization within the next twelve (12) months, please describe the anticipated changes.

4.2.4.7 Provide the percentage of total firm revenues that came from the categories listed below for each year:

Consulting with the Plan Sponsors
Money Management Activities
Services to Money Managers/Payments from Money Managers
Soft Dollars
Other (Please describe)

Does your Firm accept pay for referrals or finder's fees?

4.2.4.8 Please describe the types of services the firm provides to investment management firms and the fee arrangements that typically apply. Does your firm directly or indirectly charge money managers to be included in the firm's manager research database? Does the firm receive revenues from money management firms for their attendance at conferences or meetings sponsored by the firm? Does your firm or a related company receive any form of compensation or revenue from money managers that your firm recommends, considers for recommendation, or otherwise mentions to clients? Does the firm receive any revenues from custodian banks? If yes to any of the above, please describe the types of services provided and the fee arrangements that typically apply.

4.2.4.9 Has your firm, its principals, any primary employees, or any affiliate ever:

(i) been the focus of a non-routine Securities and Exchange Commission (SEC) inquiry or investigation or a similar inquiry or investigation from any similar federal, state or self-regulatory body or organization,

(ii) been involved in any litigation or other legal proceeding or government investigation involving fraud, negligence, criminal activity or breach of fiduciary duty relating to service provided to any clients, or

(iii) submitted a claim to your errors & omissions, fiduciary liability and/or fidelity bond insurance carrier(s)?

If yes to any, please provide details.

Briefly describe any currently pending or threatened litigation involving your firm?

4.2.4.10 Has your firm ever received loans from any money management firms, their subsidiaries, or principals? If yes, please explain.

4.2.4.11 Does your firm, its principals, or any affiliate, own any part of a money management firm, broker-dealer, or other organization that sells services to institutional investors and/or SEC registered investment advisors? If so, identify the firm(s) and describe the service and the relationship to the consulting group.

4.2.4.12 Does your firm, its principals or any affiliate have any “strategic alliance” with any broker or investment management firm? If yes, please disclose with whom and describe the nature of the alliance.

4.2.4.13 Do you offer a broker/dealer facility to plan sponsor clients to pay for or offset your fees? Are there additional services you offer plan sponsors through your broker/dealer?

4.2.4.14 Does your firm receive any soft dollar revenues from investment managers through an affiliate broker? If yes, what percentage of soft dollar revenues in each of the last three calendar years was due to client direction?

4.2.4.15 Identify any potential conflicts of interest that could exist between the System and a) other client interests, or b) that may result from other investment products or services provided by your firm or affiliated organizations. Describe your firm’s policies and procedures designed to prevent conflicts from occurring. Provide as Exhibit B the firm’s conflict of interest policy and Code of Ethics.

4.2.4.16 Provide the coverage amount and name of carrier for the following:

- Fiduciary liability insurance
- Errors & Omissions insurance
- Fidelity Bond insurance
- Any other applicable insurance

4.2.4.17 Is it the firm’s policy to impose any limitation on liability through your contract with clients? If yes, please describe.

4.2.4.18 Briefly describe your firm’s disaster recovery plan.

4.2.4.19 Provide as Exhibit C the firm’s most recently filed Form ADV – Part II.

4.2.5 Experience

4.2.5.1 Describe the firm’s relevant experience providing consulting services to large public fund clients in each of the following areas:

- Asset Allocation and Asset/Liability studies
- Investment Policy development

- Money manager evaluation and monitoring
- Risk budgeting and risk management
- Private equity
- Real estate
- Hedge funds and portable alpha strategies
- Currency overlay strategies
- Other alternative investments, such as timber, commodities, etc.
- Transition management
- Performance measurement
- Fiduciary and investment education for clients

4.2.5.2 Explain how the team dedicated to the Commission would function. Be sure to identify who will be the Primary Consultant, who will serve as the back-up consultant in situations when the Primary Consultant could not attend a meeting, and who will perform the analytical work on the relationship.

4.2.5.3 Provide as Exhibit D biographies of the personnel that will be assigned to the Commission relationship. The following information must be included:

- Full name
- Title
- Current duties – Describe current duties at the firm
- Role – Describe the role this person would have with the System
- Total years of institutional investment experience
- Total years of institutional investment consulting experience
- Total years with the firm
- Total current number of assigned accounts for which this person has Primary Consultant responsibilities
- Total current number of assigned accounts for which this person has support or back-up responsibilities
- Name, plan type, length of relationship, and size of each assigned client account for which this person serves as a Primary Consultant
- Name, plan type, length of relationship, and size of each assigned client account for which this person serves in a support or back-up capacity
- Education – List all post-secondary degrees, professional designations, licenses, etc., the issuing institutions, and year awarded
- Employment history – List employers, dates of employment, and functions performed as it relates to the scope of services specified herein

4.2.5.4 Provide as Exhibit E biographies of the firm's other key investment consulting personnel (defined as any position including and above the senior associate level). Provide the following information:

- Full name
- Title
- Current duties – Describe current duties at the firm
- Total years of institutional investment experience
- Total years of institutional investment consulting experience
- Total years with the firm

4.2.5.5 Provide as Exhibit F a table that lists all key personnel (defined as any position including and above the senior associate level) that have departed the firm's consulting group in the past five-year period. Provide the following information: MM/YY of departure, name of person, title, division or assigned group, and the name of the person that replaced them. Sort the information by date of departure so that the most recent departure appears first on the list.

4.2.5.6 Describe the firm's compensation and incentive program for its consultants and other professionals. What incentives are provided to attract and retain superior individuals? How does the firm tie client performance and satisfaction to a consultant's compensation? What percentage of a consultant's annual compensation is based on client performance or satisfaction?

4.2.5.7 Provide the number of institutional clients and the total assets under advisement of the firm's full-service retainer investment consulting relationships for each of the last five years. (Performance evaluation services or project-based work alone are not considered full-service retainer investment consulting relationships.)

4.2.5.8 For each calendar year beginning in 2003, provide the name and dollar amount of assets of all full-service retainer investment consulting clients that terminated their relationship with the firm. Provide the reason for each termination. Have there been any client terminations to date in 2007? If yes, please provide the information for those terminations as well.

4.2.5.9 List the number of full-service retainer investment consulting clients by category as of June 30, 2007:

Less Than \$1 Billion
\$1 Billion to \$5 Billion
\$5 Billion to \$15 Billion
\$15 Billion to \$50 Billion
Over \$50 Billion
Public Employees
Retirement (DB or hybrid)
Public Employees

Retirement (DC only)
Corporate (DB or hybrid)
Corporate (DC only)
Endowment
Union/Taft-Hartley (DB or hybrid)
Other

4.2.5.10 Provide as Exhibit G a list of the firm's investment consulting clients (excluding defined contribution plan relationships) as of June 30, 2007. For each client, provide the type of client (public, corporate, Taft-Hartley, private, etc.), the approximate size of the relationship (market value of assets), the number of years the firm has provided services to the client, and the type of relationship (retainer or special projects only).

4.2.5.11 Provide references for three (3) current defined benefit public pension fund clients that have utilized the firm's investment consulting services for at least five (5) years each. Include the name of the system, contact person and telephone number. Provide the same information for three (3) former defined benefit public pension plan clients that terminated the firm in the last five years.

4.2.6 Philosophy & Processes

4.2.6.1 Describe the firm's philosophy as it pertains to investment consulting. What role does the firm see itself playing for a defined benefit pension fund client such as the System? What do you consider to be your firm's consulting specialties, strengths, and limitations?

4.2.6.2 Are there common beliefs about the investment markets which underpin the firm's investment advice across all clients? If yes, please describe them.

4.2.6.3 In your view, how should a client measure its investment consulting firm's "performance"? Please explain.

4.2.6.4 Describe the firm's recommended manager search process for large public fund clients. What key criteria do you believe should be emphasized in a search?

4.2.6.5 Describe how the firm monitors a client's investment managers for them. Besides investment returns, what key criteria does the firm consider in the review of an investment manager? What is the appropriate time period for evaluating an active investment manager's performance? At what point would the firm recommend terminating an investment manager? What are the appropriate long-term alpha targets for active managers within asset classes?

4.2.6.6 Describe the firm's recommended process for analyzing manager structure. What influence does a client's current roster of managers have on the selection of a new manager?

4.2.6.7 Explain the firm's views on the use of passive versus active investment strategies and the use of global mandates versus regional specialist mandates.

4.2.6.8 Explain the firm's views on the use of hedge funds and portable alpha overlay strategies. Do you recommend large public fund clients consider a specific strategic allocation to hedge funds, or should hedge funds be used in a portable alpha overlay strategy? How could a large public fund client attain many of the benefits of using hedge funds without actually investing in hedge funds?

4.2.6.9 Explain the firm's views on risk management for a large public fund. What do you see as the key risks, and how do you recommend large public funds manage those risks?

4.2.6.10 Discuss the firm's view on risk budgeting and describe any experience the firm has in assisting clients in establishing risk budgets.

4.2.6.11 Discuss the theory and methodology of the asset allocation models the firm employs. Are there any professionals dedicated specifically to this function? Describe your methodology for establishing asset class risk and return assumptions, especially for asset classes such as real estate and private equity. How frequently does the firm review its capital markets expectations?

4.2.6.12 Provide as Exhibit H the firm's current long-term asset allocation assumptions, including forecasts for the expected return and risk for each asset class, as well as a table indicating the assumed correlations between asset classes.

4.2.6.13 Describe the firm's capability and experience in conducting asset-liability studies. How should the System's liabilities, funding level, and changes in the contribution level be incorporated into the asset allocation decision? Given the long duration of pension liabilities, what is the most appropriate means of "asset matching" for those liabilities?

4.2.6.14 Describe the firm's recommended process for assisting clients with policy guideline development and review. What specifically would the firm do to develop or review the policies of the System? How frequently would this process occur? What client-specific factors would be considered? How would the System and/or the Commission be involved in the process?

4.2.6.15 Describe the firm's capabilities in providing performance measurement at the manager, asset class and total fund level. Is the firm's database(s) proprietary or purchased? How is data input and verified? How would the Commission access the System's performance information?

4.2.6.16 Why should the Commission utilize your firm for performance measurement calculations rather than, or in addition to, the service provided by the System's custodian bank? If the Commission chose to utilize the System's custodian bank for calculating performance, would it impact the ability of the firm to provide any of the other services described in Section 3.1?

4.2.6.17 Describe how benchmarks are chosen or developed and how performance is compared to similar portfolios. Can the firm provide custom benchmarks? Style benchmarks? Normal portfolios? Please also describe the database(s) the firm uses for peer universe comparisons.

4.2.6.18 Describe the firm's recommended process for providing investment and fiduciary education of trustees and staff.

4.2.6.19 What is the firm's view of Economically Targeted Investment (ETI) programs? Of Emerging Manager programs? How can these programs meet the tests of fiduciary responsibility?

4.2.6.20 Describe the firm's capabilities and experience negotiating hard dollar fee arrangements with investment managers on behalf of clients. Do you believe that such arrangements are worthwhile? If yes, what key principles should be incorporated into any fee arrangement?

4.2.7 Research & Technology

4.2.7.1 Does the firm develop investment research reports for its clients? If yes, on what types of investment topics? Who performs the research? How frequently are reports issued? What "annual" research reports does the firm produce for clients? What sources of information are used to collect data?

4.2.7.2 Describe how the firm conducts research on investment management firms and their products. How many research analysts are dedicated to this function? How often will a representative of the firm's manager research group typically perform an on-site visit to an investment management firm? How are product classifications arrived at? Does the firm maintain a "buy list" of managers for specific product classifications?

4.2.7.3 Does the firm maintain a manager research database? Is the database proprietary or purchased? If you have an in-house database, do you sell it to third parties? How do you receive compensation for selling it? Describe any advantages that you perceive your database has over your competitors. How often are managers in your database reviewed? Under what circumstances are managers added to or deleted from your database? Describe how your firm gathers, verifies, updates, and maintains the data collected on managers for the database. Do you use surveys or meetings with managers?

4.2.7.4 The Commission quantitatively evaluates active management skill. Does the firm provide analytical software, or online access to such software, that would allow the Commission to create such graphs? If not, how would you recommend the Commission evaluate manager skill?

4.2.7.5 Describe the firm's information technology capabilities and resources. How does the firm use the technology to share and leverage information resources across the organization?

4.2.8 Cost Proposal

4.2.8.1 Provide the flat hard dollar annual fee your firm would charge for providing all of the services described in Section 3.1. The fee quoted should include all travel and other out-of-pocket expenses. Assume that the firm will be responsible for all monthly and quarterly performance calculations.

4.2.8.2 Indicate any additional categories (not in Section 3.1) of consulting work that would be considered to be "special projects" that would not be included in the flat annual fee quoted in response to question 4.2.8.1, and specifically define how "special projects" would be billed. (For example, if a special project will be billed at an hourly rate, then explain this and provide the hourly rate that would apply.)

4.2.8.3 Does the firm's flat annual fee quote include the costs of the Commission's use of any proprietary software or online access to the firm's databases? If not, please list and describe all costs, fees, or charges that would apply to the Commission's use of such proprietary software or online access.

4.2.8.4 The System intends to utilize a hard dollar fee arrangements. Would the firm be agreeable to such a type of arrangement? If not, please provide an alternative type of fee arrangement for the Commission's consideration.

4.2.8.5 If the Commission chose to utilize only the System's custodian bank for performance measurement services, and had the firm use the custodian's performance numbers in its performance analysis and reports, would the firm reduce its flat annual fee quote? If yes, indicate the annual dollar amount of reduction.

4.2.8.6 Does the firm propose to index its flat annual fee to account for inflation? If yes, please provide the formula the firm proposes the System use for this purpose.

4.2.8.7 Will the Commission be required to execute a separate contract(s) for use of any proprietary analytical software in order for the firm to deliver the scope of services required in this RFP? If yes, describe those products.

Section 5 - Evaluation of Proposals

5.1 Introduction

This section describes the evaluation process that will be used to determine which proposal provides the greatest benefits to the System. The evaluation process is designed to award the contract not necessarily to the firm with the lowest cost proposal, but rather to the firm with the best combination of attributes to perform the required services.

5.2 Evaluation Process

The evaluation process shall consist of the following:

5.2.1 The Commission's support staff will review proposals to assess compliance with minimum requirements.

5.2.2 The Commission or its designee will meet to discuss the proposals and compile a list of any follow-up questions or clarifications it requires. The Issuing Officer will submit the clarification questions to the respective firms in writing and will receive written responses that will be distributed to each member of the Commission for their review.

5.2.3 Some firms may be asked to make a presentation to the Commission.

5.3. Evaluation Criteria

The Commission or its designee will evaluate and score all proposals that meet all minimum requirements.

5.4 Recommendation/Selection

A recommendation shall be presented to the Commission for consideration. This recommendation may include, but is not limited to, the name of one or more firms recommended for selection or a recommendation that no firm be selected.

Section 6 - Contract Terms and Conditions

6.1 Contract Terms and Conditions

The contract that the Commission expects to award as a result of this RFP will be based upon the proposal submitted by the successful firm and this solicitation.

The contract signatory for the System will be its Chief Executive Officer.

Section 7 - Required Exhibits

7.1 List of Required Exhibits

The firm's proposal must include the following Exhibits:

- Exhibit A Organization Chart
- Exhibit B Conflict of Interest Policy and Code of Ethics
- Exhibit C ADV – Part II
- Exhibit D Biographies of the Team Personnel assigned to the System
- Exhibit E Biographies of Other Key Personnel
- Exhibit F List of Personnel Departures
- Exhibit G List of Firm's Consulting Clients
- Exhibit H Firm's Asset Allocation Assumptions